

CPR Commission Public Hearings

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Testimony of

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Within the next 20 to 25 years, California's population will surpass 50 million. This population growth, along with the state's economic expansion and higher infrastructure standards, will place new demands on its aging infrastructure systems. Unless the state acts promptly and effectively, traffic congestion, crowded classrooms, and conflicts over water are likely to increase. How well the state responds to these new demands will largely define its prosperity and quality of life for decades to come. The work of the CPR is an important first step in putting California's infrastructure system back in world class standing.

I have spent most of my professional career conducting research and offering policy advice on infrastructure planning, finance and service delivery in over 40 developed and developing countries. For the past five years, my research has closely examined California's infrastructure provision in three critical areas – transportation, water supply and educational facilities. In the short time I have, I would like to share with you some of my key findings and recommendations. What does the State need to do?

1. Define California's vision for the future, and use it to plan and prioritize infrastructure investments.

One way to plan and prioritize investments is to develop a series of regional or metropolitan plans that link transportation and land-use planning to other infrastructure services. These plans could then be integrated to form the basis of a statewide strategic plan for California.

A more centralized approach would be to develop a statewide development plan.

Once a plan is in place, the state government can link agency goals and missions to the capital decision-making process. In particular, the state should ensure that new investment is needed, that the performance gap cannot be met in other ways, that all financing options are considered, and that collaborative partnerships for service provision are explored.

2. Introduce demand management into the infrastructure planning process.

California cannot accommodate future growth without managing the demand for existing facilities. In the three key sectors, demand management measures might include fostering conservation in both urban and agricultural water use; promoting water recycling and reuse; implementing road pricing to mitigate traffic congestion; increasing incentives for transportation modes other than single-occupancy automobile use; and year-round operation in higher education.

3. Review user fees and develop ability-to-pay offsets.

Where the state charges user fees to finance infrastructure, it must raise rates to recover from years of declining investment. In the water sector, for example, water districts could expand the use of block-rate tariffs in urban areas. In the transportation sector, the state should consider raising gasoline taxes and vehicle registration fees. It should also consider a congestion pricing system on the state's busiest bridges and highways. Because these measures are likely to disproportionately burden the state's poorest residents, a demonstration project to address equity concerns should be launched. In higher education, means-tested tuition and fee structures that encourage students to move swiftly through the University of California (UC) and California State University (CSU) systems should be developed. Fee structures should also differentiate between vocational, academic, and other sorts of courses aimed at senior and leisure markets at the community college level. The fees of professional schools and colleges should reflect actual costs, particularly in areas where students are expected to receive high starting salaries. Fee waivers could be given to students willing to enter public or community service careers upon graduation. Care must be taken to ensure that fee adjustments do not limit the access of low-and middle-income households to higher education; in particular, the state could offer a range of offsets including lifeline rates, financial aid, and tax rebates.

4. Introduce accountability measures to foster enhanced project delivery at the agency level.

My research has uncovered numerous examples of slow or otherwise inadequate infrastructure service delivery. Agencies need to develop strategic plans that include performance goals and standards based on meeting client needs. The State should provide clear incentives for high-level performance, including personnel reviews, merit increases, and bonuses. Public service providers should also compete with private firms for the right to provide client services.

5. Introduce lifecycle costing and management.

State decision-makers and policy analysts are far too preoccupied with the initial costs of infrastructure. A more balanced approach would consider lifecycle costs—the total cost of building, operating, and maintaining a capital asset over its lifetime. The state also needs to hold agencies accountable for the maintenance of their capital facilities. This accountability would require better reporting of the condition of facilities, and five-year plans to eliminate deferred maintenance backlogs.

How should the State proceed? Let me suggest a three-step implementation approach: (1) immediate measures to relieve costly congestion and infrastructure impact; (2) near-term efforts to address infrastructure service shortfalls; and (3) a long-term overhaul to remove structural and institutional impediments to infrastructure provision.

Immediate Actions: Demand Management and Pricing Review

Of the state's policy options, demand management interventions will have the quickest effects and do not rely on capital outlays. Peak-hour tolls could be imposed for a one-year trial in conjunction with vouchers for public transit use. Local governments could also levy parking excise taxes on all municipal and private parking lots and structures. In general, the state should also link infrastructure fees and benefits. For example, gasoline sales taxes rather than general sales taxes should be used to finance transportation infrastructure. In the water sector, the state should encourage or require municipal water districts to adopt the Department of Water Resources' Memorandum of Understanding regarding urban water conservation. Similar action is also needed for agricultural water districts. Finally, the state should accelerate the conversion of water tariffs to a full-cost recovery basis. At CSU and UC campuses, fee structures should encourage students to graduate in four years.

Medium-Term Actions: Institutional and Financial Restructuring

Over the next five years, the process outlined in AB 1473 should be used to foster more strategic planning and to forge a stronger link between strategic and capital planning. The state needs to develop accountability systems to measure agency performance. Incentives (both positive and negative) could be developed to spur more efficacious performance.

As user fees and beneficiary charges are raised over the next five years to reflect provision costs, the state should restructure its systems of infrastructure finance. This restructuring should include full funding of maintenance; capital outlay grants to sectors based on demand; and a balancing of pay-as-you-go and debt financing to introduce more predictability to infrastructure capital investment.

Long-Term Actions: Visionary Planning and Integration of Infrastructure Policy

Over the next two decades, the state should work to develop a vision for the future economic and physical development of California. The vision should link land use and environmental planning with economic development and infrastructure investment. This plan should serve as the basis for multi-sectoral infrastructure investments.

Will the CPR Recommendations Move California's infrastructure Systems Back to Their World-Class Status?

Chapter 4 is a good start—its focus should be broadened to including higher-education facilities. The Commission needs to also think *across* sectors, as it develops institutional reforms. The most critical area of reform is in building systems of accountability—so that Californians get value for their money.